

Congress of the United States  
Washington, DC 20515

July 18, 2000

The Honorable Arthur Levitt  
Chairman  
Securities and Exchange Commission  
450 5<sup>th</sup> Street, NW  
Washington, DC 20519

Dear Chairman Levitt:

We are writing with respect to the Commission's proposed rules to limit the range of services provided by auditing firms. While we applaud your long-demonstrated commitment to preserving and enhancing the integrity of the U.S. capital markets, we are concerned that the proposed rules could work contrary to that goal.

First and foremost, we are concerned that the Commission's plans to proceed with a regulatory ban on various non-audit services appears premature in view of the fact that more market-based reforms have only recently been put in place. Last year, the Independence Standards Board adopted a requirement (ISB Standard No. 1) that auditors annually disclose to audit committees all relationships between the auditing firm and the client which might bear on independence. In a similar vein, the SEC and the major stock exchanges recently adopted new rules expanding disclosures in proxy statements regarding auditor independence. A measured approach to regulation would suggest that, at a minimum, these reforms be given time to work before imposing outright prohibitions on the marketplace.

In addition, we also believe that our regulatory framework must be meaningful in the New Economy of the 21<sup>st</sup> century. The historic shift from the industrial era to the information age has wrought profound change on all elements of our economy, but perhaps none more fundamental than in our capital markets. Average citizens now trade as readily as only institutions once could. The public investor makes decisions based on a vast new array of information, little of it related to financial statements, much of it geared toward the company's future performance. Individuals are relying on measurements for which there are no commonly agreed standards and disclosures for which there is no independent verification required. And this information streams across the family computer in real time.

Over fifty years ago, when the requirement was written for public companies to disclose information and accountants to attest to it, Congress had one goal in mind: investor protection. That goal hasn't changed. But the methods to achieve it in vastly different circumstances must certainly change. Congress has an interest, indeed an obligation, to consider new models of corporate disclosure and investor protection.

The independent auditor will obviously play an important role in that model. Lending assurance to new species of company information in real time will surely require skills, methodologies, and technologies beyond those geared to the traditional audit of historical financial statements. We therefore believe that to restrict the range of audit firm activities before new models of corporate disclosure have evolved is at best premature, at worst inimical to investor protection.

In a more immediate context, we have serious questions about rulemaking premised on the assertion that the provision of non-audit services to audit clients represents a conflict of interest. The Commission's proposed rule cites no empirical evidence or analytical studies that show a negative correlation between non-audit services and audit quality. To the contrary, several reports found that no new regulations in this area are needed.

Most recently, an exhaustive study by a prominent panel of the Public Oversight Board, concludes in its May 31, 2000 Exposure Draft, "The Panel is not aware of any instances of non-audit services having caused or contributed to an audit failure or the actual loss of auditor independence." In fact, the Panel found that in roughly one-fourth of the audits of companies to which consulting services were also provided, the additional services "had a positive impact on the effectiveness of the audit."

As New Democrats, we are committed to pragmatic, effective government. Sound regulation balances public protection with the need for growth and innovation in the economy. Because we are aware of no concrete evidence showing any demonstrable threat to the public interest, we are concerned that this balance may be lacking in the Commission's proposed scope of practice rulemaking.

We are, therefore, concerned about what appears to be a rush to regulate. Thank you for consideration and response to our concerns. We look forward to working together with you on this and other challenges the New Economy poses to protecting the public investor and to ensure that our capital markets remain as deep, liquid, and transparent in the future as they have been under your stewardship.

Sincerely,

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Ellen O. Tauscher, M.C.

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Jim Moran, M.C.

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Cal Dooley, M.C.

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Adam Smith, M.C.

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Peter Deutsch, M.C.

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Jim Maloney, M.C.

cc: Commissioner Isaac C. Hunt  
Commissioner Paul R. Carey  
Commissioner Laura Simone Unger